MARXIST STUDY COURSES

Course

POLITICAL ECONOMY

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Economic Crises

I. What is the Capitalist Crisis?

II. Bourgeois Theories of Crises.

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Political Economy

LESSON VIII.
ECONOMIC CRISES
(Part I)

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LESSON VIII. THE ECONOMIC CRISIS

I. WHAT IS THE CAPITALIST CRISIS

The entire capitalist world has now for the last three years been going through the heaviest economic crisis.

During the whole of last century, the capitalist system was repeatedly in the throes of a crisis at more or less definite intervals of time. The history of capitalism knows of no decade during which there was not a crisis. Already Engels wrote in 1877 :

> " We have now, since the year 1825, gone through this five times, and at the present moment (1877) we are going through it for the sixth time." (Crises occurred in 1825, 1836, 1847, 1857 and 1866. *Ed.*) (Engels, *Socialism, Utopian and Scientific. p.* 65)

But also after 1877 crises repeated themselves continuously. In the twentieth century capitalism has passed through five crises. There were crises in 1900 and 1907, a crisis began to develop in 1914 but its development was stayed by the World-War ; then came a crisis in 1921, and finally one broke out in 1929.

> " As a matter of fact, since 1825, when the first general crisis broke out, the whole industrial and commercial world, production and exchange among all civilised peoples, and their more or less barbarian hangers-on, are thrown out of joint about every ten years. Commerce is at a standstill, the markets are glutted, the products accumulate as multitudinous as they are unsaleable, hard cash disappears, credit vanishes, the factories are closed, the mass of the workers are in want of the means of subsistence because they have produced too much of the means of subsistence, bankruptcy follows upon bankruptcy and execution upon execution. The stagnation lasts for years. Productive forces and products are wasted and destroyed wholesale, until the accumulated

mass of commodities finally filter off more or less depreciated, until production and exchange gradually begin to move again. Little by little the pace quickens. It becomes a trot. The industrial trot breaks into a canter, the canter in turn grows into the headlong gallop of a perfect steeple-chase of industry, commercial credit, and speculation, which finally, after breakneck leaps, ends where it began—in the ditch of a crisis. And so over and over again." (Engels, *Ibid.*, p. 65.)

Marx described this characteristic life-course of capitalism as follows :

" The life of modern industry becomes a series of periods of moderate activity, prosperity, overproduction, crisis and stagnation." (Marx, *Capital*, Vol. I, p. 495.)

(*a*) General Picture of the Crisis

A crisis usually affects all spheres of capitalist economy : industry and commerce, banks and stock exchanges, credit and circulation of money; in a word, all parts of capitalist economy are reduced to a state of convulsion during a crisis.

A crisis is usually preceded by a period of boom in which there is a steep rise in production. All commodities produced are sold without difficulty and at prices which leave a big profit to the capitalists. The prices of shares climb upwards. In that era of feverish boom it seems as though everything is for the best in the capitalist world. Suddenly the first stagnation in the disposal of goods sets in, which is followed by a catastrophic fall in sales. It turns out that there is no demand for the goods that had been produced, and they lie in the warehouses as so much dead stock. As soon as the commodities cannot be realised in money the capitalists begin to feel the pinch of a money famine. A general hunt after money begins.

" On the eve of the crisis, the bourgeois, with the self-sufficiency that springs from intoxicating prosperity, declares money to be a vain imagination. Commodities alone are money. But now the cry is

everywhere: money alone is a commodity! As the hart pants after fresh water, so pants his soul after money, the only wealth." (Marx, *Capital*, Vol. I, p. 155.)

A monetary crisis breaks out. The capitalists cannot meet their financial obligations, as their commodities find no sale, i.e., cannot be converted into money. Even when they succeed in selling their goods they do so at such reduced prices that they are still unable to meet their obligations completely. This results in a credit shock which brings about a financial crisis. The stock exchange begins to feel restless with the first stoppage. The approach of a disaster makes itself felt and every one strives to get rid of his stocks and shares and convert them into money. The prices of shares begin to fall. There is a panic on the stock exchange, which develops into a crash. Mass bankruptcies set in. The factories and works of the bankrupt firms come to a standstill and the workers are thrown on the streets. But even the firms who manage to keep going reduce their production and begin dismissing their workers, for commodities can still be sold but in limited quantities and at reduced prices. Enormous masses of workers are condemned to unemployment, poverty and starvation.

As crises manifest themselves first of all in the money market and credit business, and only subsequently in commerce, the impression is gained that crises are brought about by disturbances in the sphere of circulation and not by the conditions of the process of production itself. This is why the bourgeois economists usually seek for the causes of a crisis not in the condition of production but in the phenomena of the money and credit market.

"The superficiality of (bourgeois.—*Editor*) Political Economy shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere *symptom* of the periodic changes of the industrial cycle, as their *cause*." (Marx, *Capital*, Vol. I, p. 695.)

Capitalist circulation is, indeed, not independent of

capitalist production ; on the contrary, it is the mode of production which determines the mode of circulation. Circulation, exchange, distribution and credit are but moments of the capitalist production process itself ; they only reflect the movement of capitalist production.

> " It is with the economic, political and other reflexes just as with the human eye; they pass through a condensing lens and represent themselves therefore in an inverted form, head downwards. . . . The man on the money market sees the movement of industry and the world market in the inverted reflection of the money and stock market and the cause becomes for him the effect." (Engels, *Letter to Conrad Schmidt*, of October 27th, 1890.)

It appears as though the cause of the crises lay in the shortcomings of the money and credit mechanism. Actually, however, the money, credit or stock exchange failure is only an expression of the crisis in production which had already set in. Only it manifests itself first in the sphere of money or commodity circulation. But the capitalist employer only learns through the movement of prices that he has produced an excess quantity of commodities in relation to the demand of those able to buy. Stock exchanges and banks are a very sensitive apparatus of capitalism, an apparatus which exactly perceives all the fluctuations and change which take place in industrial activity. The order in which the crisis manifests itself externally is entirely contrary to the real process of its development. The money credit and commercial crisis is, in reality, only a consequence of the industrial crisis. If though, the first stagnation occurs in the money and securities market as well as in the commercial commodity markets, this stagnation is, however, only the result of the fact that production itself *has overstepped the limits of the capitalist market.*

The above described crises are general[1] capitalist crises, the causes of which lie in the capitalist mode of

[1] What is called here the general industrial crisis, as against the " Particular " or partial crisis, such as commercial crises, monetary and credit crises, etc., must be distinguished from the " General Crisis of Capitalism (which will be dealt with later) as a special phase of Imperialism.

production, while the commercial crises and money and credit crises are but phases or moments of the general industrial crisis.

But side by side with money and credit crises which are but moments or phases of the general industrial crisis, there occur under capitalism also crises of a special kind, a special sort of money or credit crisis.

> " The monetary crisis, being a phase of every crisis, must be clearly distinguished from that particular form of crisis, which also is called a monetary crisis, but which may be produced by itself as an independent phenomenon in such a way as to react only indirectly on industry and commerce. The pivot of these crises is to be found in moneyed capital, and their sphere of direct action is therefore the sphere of that capital, viz., banking, the stock exchange, and finance." (Marx, *Capital*, Vol. I, footnote on p. 155.)

Further, partial crises also set in under capitalism in addition to the general ones, that is, crises of local importance which only affect some individual branch of production and do not extend generally.

We will here only deal with the general capitalist crises.

(*b*) Capitalist Crises—Crises of Over-production

> " The most general and obvious phenomenon of the commercial crises," says Marx (who describes here, as in many other places, the general crises as commercial ones, not from the point of view of their sources and causes but in consideration of an industrial crisis making first appearance in the sphere of commerce) " is the sudden and general drop in the prices of commodities." (Marx, *Critique of Political Economy*, p. 195.)

Prices fall during a crisis because a superfluous quantity of commodities have been produced. This excess of commodities is, however, not absolute in the sense that production exceeds the absolute requirements of society, that society is therefore over satisfied. On the contrary, at times of crises there is the greatest need

for goods by the starving masses. What we have here is merely a relative superfluity of commodities produced (a superfluity from the point of view of the existing price-level) in relation to the purchasing power of the population, since under capitalism social consumption is neither determined by :

> " the absolute productive power nor by the absolute consuming power of society, but by the consuming power based on antagonistic condition of distribution which reduces the consumption of the great mass of the population to a variable minimum within more or less narrow limits." (Marx, *Capital*, Vol. III, p. 286.)

The decline in the prices of commodities is thus brought about by relative over-production. The capitalist crises are crises of relative over-production.

Crises of over-production were impossible in all the social formations before capitalism. A deficit in production was, indeed, possible. Violent disturbances in the process of production in consequence of harvest failures, floods and other natural events were possible. The pre-capitalist societies knew, however, no over-production, since production was built up for the direct satisfaction of wants. While the object of production in a society based upon slave-labour was not the satisfaction of the needs of the masses themselves, its aim was yet to satisfy the wants of the slave-lords.

Under capitalism, however, production is not carried on for direct use. Under capitalism " commodities " are produced as products of capital which must yield the normal profit. The aim of capitalist production is to snatch profit. It is, therefore, only under capitalism that a state of things is possible in which there are too many commodities because they cannot be sold at prices which would provide the normal profit.

It follows from the very nature of the crises, as those of over-production, that they are conditioned by the capitalist form of social production and that crises are firmly rooted in the nature of capitalism itself.

The crises of over-production reveal the whole limitation of the bourgeois social system. They show that

capitalist production relations are already much too narrow for the development of production, that these relations have become transformed into chains which hamper the development of production.

"In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of over-production. Society finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed. And why? Because there is too much civilisation, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the condition of bourgeois property; on the contrary they have become too powerful for these conditions, by which they are fettered, and no sooner do they overcome these fetters than they bring disorder into the whole of bourgeois society, endanger the very existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them." (*Communist Manifesto*, p. 15.)

The crises lead, indeed, to the destruction of a portion of the productive forces developed by capitalism. The development of capitalism is accompanied by regularly recurring crises, and capitalism is thus continuously confined to a vicious circle as its further development only becomes possible through the destruction of productive forces. This shows that the production relations of capitalism arrest the development of the productive forces. The crises of over-production reveal the profound contradiction and absurdity of capitalist society.

"On the one side a profusion of all conditions of reproduction and all sorts of unsold commodities on the market. On the other side, bankrupt capitalists and starving masses of workers denuded of everything." (Marx, *Theories of Surplus-value*, Vol. II, p. 303, German Edition.)

"The whole mechanism of the capitalist mode of

production breaks down under the pressure of the productive forces, its own creations. It is no longer able to turn all this mass of means of production into capital. They lie fallow, and for that very reason the industrial reserve army must also lie fallow. Means of production, means of subsistence, available labourers—all the elements of production and general wealth are present in abundance. But ' abundance becomes the source of distress and want ' (Fourier), because it is the very thing which prevents the transformation of the means of production and subsistence into capital. For in capitalistic society the means of production can only function when they have undergone a preliminary transformation into capital, into the means of exploiting human labour-power. The necessity of this transformation into capital of the means of production and subsistence stands like a ghost between these and the workers. It alone prevents the coming together of the material and personal levers of production; it alone forbids the means of production to function, the workers to work and live." (Engels, *Socialism, Utopian and Scientific*, p. 67.)

But if the crises of over-production are conditioned by the nature of capitalism itself, if they are an expression of the fact that the bourgeois relations of production have proved themselves much too narrow for the productive forces, it clearly follows therefrom that crises cannot be abolished under capitalism.

Marx and Engels have already explained in the " Communist Manifesto " that crises will recur again and again, and every time to an increasing extent, as long as the capitalist order of society continues to exist.

" How does the bourgeois get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets and the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented." (*Communist Manifesto*, p. 15.)

CONTROL QUESTIONS

1. What are the individual phases of the crises ?
2. What is the difference between a general crisis and a partial one ?
3. Why is over-production in capitalism relative ?

II. BOURGEOIS THEORIES OF CRISES

Bourgeois science has now been plaguing itself for a whole century to discover the causes of capitalist crises.

The problem of the crisis, however, is up to the present an unsolved riddle for Capitalist economies. For while the crisis is the sharpest and deepest expression of the contradictions of capitalism, the chief contradiction of capitalism,

> " the contradiction between socialised production and capitalist appropriation, ends in a violent explosion." (Engels, *Socialism, Utopian and Scientific*, p. 65.)

The theoreticians of the bourgeoisie fully realise that to recognise that the bourgeois order of society, as such, is guilty of the crisis would be equivalent to a condemnation of this order.

As Marx wrote :

> " In so far as Political Economy remains within that horizon, in so far, i.e., as the capitalist régime is looked upon as the absolutely final form of social production, instead of as a passing historical phase of its evolution, Political Economy can remain a science only so long as the class-struggle is latent or manifests itself only in isolated and sporadic phenomena." (Marx, *Capital*, Vol. I, Preface to 2nd Edition, p. 17.)

Only the earliest representatives of bourgeois Political Economy, the so-called classics, could still attempt to investigate the laws of development of capitalism scientifically and without prejudice.

But capitalist production at that time had not yet known regular and general crises of over-production.

The most brilliant representative of bourgeois political economy, Ricardo (1772-1823), who wrote in the first quarter of the nineteenth century, had only known local crises, which had broken out at the beginning of the nineteenth century and were brought

about by non-economical causes. This is also why Ricardo looked upon crises as accidental phenomena, and believed in the unrestrained and endless continuation of the process of accumulation under capitalism.

As soon as capitalism grew out of its adolescence, approximately since 1825, its development was regularly arrested through general crises of over-production. But on the other hand, since that time, the class-struggle assumed ever more clearly pronounced and threatening forms.

This is why Marx spoke of it already at that time as follows :

> " It sounded the knell of scientific bourgeois economy. It was thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested enquirers, there were hired prize-fighters ; in place of genuine scientific research, the bad conscience and the evil intent of apologetic." (Marx, *Capital*, Preface to 2nd Edition, p. 19.)

When the bourgeois theoreticians begun to apply themselves to the investigation of the causes of capitalist crises, a bourgeois science of political economy already became impossible.

(*a*) General Possibility of Crises and Crisis-less Capitalism

This explains also the absence of any unified and generally recognised bourgeois theory of crises. The multiplicity and multiformity of the bourgeois teaching on the causes of crises are only an expression of the fact that every one of them is unsatisfactory.

But, while bourgeois political economy is represented, since Marx, by a multi-coloured mass of various schools and tendencies, each of which conceives the problem of crises differently, all the theoreticians, without exception, have a common striving to turn aside from the fundamental facts of capitalism itself when proceeding to the explanation of crises, in order to disguise the contradictions of capitalism.

There are thus bourgeois theoreticians who are seeking for an explanation of crises in the phenomena of nature (so, for example, Jevons (1835-1882) declared that crises were called forth by the influence of the sun spots on the surface of the earth) others clothed these explanations of crises by natural science in a modern garment, and considered crises as a result of the changes in atmospheric phenomena and the fluctuations in the harvest resulting therefrom ; others again started from the conditions of finance, as such, as well as from the difficulties of adjusting supply and demand, exchange, etc., and etc. Thus, for instance, the modern bourgeois economist Cassel takes the following view :

> " In modern crises, it is not, in the first place, a question of over-production . . . a crisis arises from an acute shortage of capital, i.e., saving funds. . . ." (Cassel, *Theoretical Social Economy*, 4th Edition, Leipzig, 1927, pages 574, 577.)

It is now, indeed, generally known that crises are characterised by a relative abundance of capital ; but Cassel declares in spite of these facts that the real cause of a crisis lies in a shortage of capital. This explanation of crises is very pleasant for the bourgeoisie since its origin lies neither in the nature of capitalism nor its chief contradictions, and the contingency of crises and the possibility of their elimination under capitalism may thus be demonstrated. If, indeed, crises arise as a result of the shortage in savings funds, is it not possible to force through an increase in savings and thus overcome crises ?

Another not less well-known bourgeois economist, namely W. Sombart, remarks still more clearly :

> " The ground (for crises) lies in the ever recurring boom tendencies which are inherent in high capitalism and which resulted up to the present in the (historically, *not essentially necessary*) overflow of production in individual spheres."

In so far as according to the idea of Sombart, crises are not " essentially necessary," and are, therefore, accidental, it is easy to prove on this assumption the possibility of a development of capitalism without

crises. And Sombart has, indeed, declared after the war on the ground of his theory that capitalism has entered upon the phase of crisis-less development :

" The crisis of 1857 was the last catastrophe on a big scale. And since then there is the clear tendency in European economy to level and soften the antagonisms and bring about their disappearance." (Sombart, *Ibid.*, p. 702.)

Therefrom Sombart draws the following conclusion, which, as he himself says, is directed against the orthodox Marxists :

" What grew out of capitalism, thus left to itself, was, however, as pointed out, the contrary to the prophesied intensification of crises : it was their removal." (Sombart, *Ibid.*, p. 702.)

The theory of the crisis-less capitalist development had a particularly big success in connection with the development of cartels and trusts, to which bourgeois political economy ascribed a wonder-working power as a deliverance of capitalism from crises.

Thus, the French economist—Jean Lescure, wrote in 1907 in a work on the history of crises as follows :

" If we are to judge of the future in accordance with the experience of the U.S.A. we will come to the conclusion that economies which are organised in trusts or trust associations are immune from crises." (*General or Periodical Industrial Crises.*)

Lescure has only repeated the opinion, which was very widely spread in the beginning of the twentieth century among bourgeois ideologists, that trusts are a means to overcome crises.

A new crisis broke out, to be sure, in 1907, but the bourgeois economists explained the failure of their prophesies by the youth of the trusts and their still insufficient maturity.

But that crises were weakened during the last period of capitalism, thanks to cartels and trusts, was considered as an irrefutable truth by bourgeois economists.

Thus, Cassel wrote :

" The old proposition that crises will become ever

more devastating, is, at all events, already very obsolete. The facts lead to the conclusion of a weakening of the crises in the most advanced and economically best schooled countries." (Cassel, *Theoretical Social Economies*, IVth Edition, Leipzig, 1927, p. 476.)

Tugan-Baranowski, the author of a world-famous book on the theory and history of commercial crises in England (1901), wrote as follows :

" The cartels may soften the harshness of the transition from boom to depression." (Tugan-Baranowski, *Studies on the Theory and History of Commercial Crises in England*, p. 416.)

The idea of a weakening in crises has recently become so deeply rooted in bourgeois political economy, that many of the most notable American economists have banned the very word, " crisis," from their vocabulary and have replaced it by the word " recession," meaning thereby something like a recoil or reverse.

(*b*) Bankruptcy of the Bourgeois Theories

The theory of the crisis-less development of capitalism blossomed forth with particular strength in the years of 1927-1929, fed by the enthusiasm with which the ideologists of the bourgeoisie welcomed so-called American " prosperity." The boom in American economy was to signify a general improvement in capitalist economy and the indestructible and lasting stabilisation of capitalism.

The numerous economic institutes, established by the bourgeoisie, so that they may forecast the economic weather, have trumpetted throughout the world, on the very eve of the crisis in 1929 that American " prosperity " was unlimited.

It is very remarkable that a commission of the most notable American bourgeois scientists under the chairmanship of Hoover, late President of U.S.A., issued a symposium a few months before the outbreak of the crisis in which they relegated crises to the lumber-room of history.

The introduction to the Report of the Hoover commission declared as follows :

> " Once an intermittent starting and stopping of production-consumption was characteristic of the economic situation. It was jerky and unpredictable, and over-production was followed by a pause for consumption to catch up. For the seven years under survey, a more marked balance of production-consumption is evident." (*Recent Economic Changes in the United States, Report of the Hoover Committee*, Vol. I, p. xxi.)

The Hoover commission drew the following conclusions on the future prospects of American capitalism :

> As long as the appetite for goods and services is practically insatiable, as it appears to be, and as long as productivity can be consistently increased, it would seem that we can go on with increasing activity. (*Ibid.*, p. xxii.)

The intense crisis in the U.S.A. has, however, scornfully ridiculed the economic weather prophets and has torn to tatters the illusions of a crisis-less development of modern capitalism. The present crisis has demonstrated to the whole world, in the clearest manner, the complete bankruptcy of bourgeois economic theory.

The bourgeoisie may go on founding as many special institutions as it likes, but so long as capitalism continues to exist, crises will unexpectedly and unavoidably break out again and again. For crises are conditioned by the nature of capitalism itself.

It is exceptionally noteworthy that bourgeois " economic science " after passing in review an endless series of the most different crisis theories and feeling the bankruptcy of every one of them has now, in the person of its latest representative, come to the point when it abandons the idea of preaching any crisis theory whatsoever. We thus find that one of the most modern crisis experts in the U.S.A., Mitchell, has in general given up the idea of providing any theory of the crisis in his book, *Business Cycles*, and one need not wonder that Mitchell has frankly substituted a simple description of the crisis for an explanation of its causes.

John Maynard Keynes ignores the crisis in another way. In his pamphlet *Means to Prosperity*, he says:

> "It comes from some failure of the immaterial devices of the mind, in the working of the motives which should lead to the decisions and acts of will, necessary to put in movement the resources and technical means we already have."

It is like two drivers stuck on the highway because neither knows the rules of the road! Yet even he recognises the gravity of the position, though he argues that Utopian schemes can solve it.

> "We have reached a critical point. In a sense, it is true that the mists are lifting. We can at least see clearly the gulf to which our present path is leading. Few of us doubt that we must, without much more delay, find an effective means to raise world prices; or we must expect the progressive breakdown of the existing structure of contract and instruments of indebtedness, accompanied by the utter discredit of orthodox leadership in finance and government, with what ultimate outcome we cannot predict."

It was not for nothing that Lenin wrote that "to speak after Marx of any non-Marxian political economy is but to befool the philistines, even though they be highly civilised ones."

CONTROL QUESTIONS

1. What is the characteristic trait of all bourgeois crisis theories?
2. Why is a scientific bourgeois crisis theory impossible?

III. THE SOCIAL-DEMOCRATIC CONCEPTION OF CRISES

Social-Democracy, in the domain of theory as in that of day-to-day practice, is the agent and attorney of the bourgeoisie. This is why it has not put forth any independent crisis theory. But while Social-Democracy defends the bourgeois standpoint in any and every sphere of theory, it masks the bourgeois nature of its theoretical expositions by Marxian phraseology.

Social-Democracy takes over the most modern

bourgeois tendencies for an explanation of crises and those which are best suited for the practical policy of the bourgeoisie. It is natural that the breakdown of the bourgeois theories is at the same time the shipwreck of the Social Democratic teachings on crises.

(*a*) Breakdown of the Social-Democratic Teachings on Crises

Is not the following explanation given in the middle of 1931 by the Russian Menshevik Denike (writing under the nom-de-plume Decker), the chief theoretician of Hilferding's "*Gesellschaft*"[1] (Society), an expression of the complete bankruptcy of the Social Democrats?

> "I frankly admit that I do not see any possibility to describe the present crisis in its entire historical singularity, and I fear that such a description will only become possible after the crisis itself will have been overcome." (Georg Decker, "Economic Crises and Politics," *Die Gesellschaft*, 1931, No. 4, p. 320.)

The Social-Democrats, in the person of Decker himself, thus confirm that they can offer no explanation for the modern crisis.

But no one need be surprised at it. For the Social-Democrats have spread in the course of a whole number of years bourgeois visions of the weakening of crises which had broken out during the last ten years; more than that, they have even tried to prove the possibility of a crisis-less development of capitalism.

Hoping, however, that their readers will not take the trouble to look up what they have, for example, written two years previously, the Social-Democratic gentlemen declare to-day that crises cannot be removed under capitalism. Thus, for instance, the well-known Fritz Naphtali writes in the May issue of *Gesellschaft*:

> "That the development of modern capitalist forms . . . cannot put a stop to the action of crises has already been exhaustively shown by Hilferding in 1910." (Fritz Naphtali, *Organised Capitalism in Economic Crises*, No. 5, eighth year, p. 424 and 425.)

Naphtali writes further:

[1] Theoretical organ of German Social Democracy.

" When Socialists speak of ' Organised Capitalism ' as a ' higher ' form of capitalism they mean a ' higher ' and not a ' better ' form." (*Ibid.*, p. 426.)

At one time the Social-Democrats also grasped that crises cannot be abolished under capitalism.

Thus, for example, in a series of articles which he published in the *Neue Zeit* in 1902, Kautsky wrote :

" In general it may be said that crises will sharpen and spread more and more." (*Neue Zeit*, 1902, Vol. II, p. 136.)

And further, in the same article, he remarks :

" This in itself proves the untenability of all the talk of overcoming or even weakening crises by the cartels, which, in spite of all experience, has not yet been completely silenced." (*Ibid.*, p. 111.)

But although the Social-Democrats did not themselves believe in the possibility of the abolition of crises under capitalism they have yet, in the course of the last years, tried to persuade the workers that capitalist society may reach such a state of perfection that it may develop without any further crises.

It is not for nothing that Sombart is eagerly praising the Social-Democratic theoreticians, as they also recognise " the ingenious adaptability of capitalism" :

" The vulgar Marxian theory firmly maintains the view that capitalist economy is ' anarchic.' There is nothing more false than this. And intelligent Marxists have admitted long ago that this view is altogether wrong. The works of K. Renner, R. Hilferding, E. Lederer and others have aimed at describing the ingenious adaptability of capitalism, at least of some parts of it." (Sombart, *Economic Life in the Age of High Capitalism*, Vol. III, Part II, p. 952.)

But let us hear what these theoreticians of Social-Democracy, these " intelligent Marxists " (as Sombart calls them), have to say about crises.

Hilferding pointed out at the Kiel Congress of German Social-Democracy in 1927, that capitalism has entered upon a new era of " organised capitalism " which, as he says :

" means the substitution of the capitalist principle of free competition by the Socialist principle of production according to plan." (*Minutes of the Social-Democratic Congress*, 1927, p. 168.)

Kautsky wrote in his Preface to the People's Edition of the 2nd volume of *Capital*, which appeared in 1926, as follows :

" And we Socialists have ourselves said that crises are unavoidable so long as production remains capitalistic. As against this, the capitalists were just those who hoped to be able to mitigate crises more and more through employers' associations. . . . This is how the matter stood up to the world war. The war has fundamentally revolutionised the relations in the spheres here in question."

". . . While they (crises) arose up to then (up to the world war.—*Editor*) in purely economic circumstances in so far as they were of a general nature) which could be little influenced by capitalist politics, we have since then reached an age of crises which are, in their greatest part, a product of the policy of the governments, which may, therefore, BE AVOIDED EVEN WITH THE CONTINUATION OF CAPITALIST ECONOMY if the policy of governments were determined a little less by militarist and monopolist considerations and a little more by those of an insight into the economic needs of the process of circulation."

" Numerous expressions of Social-Democrats could be cited which intended to prove, with Kautsky, that the inevitability of crises is not inherent in the nature of post-war capitalism, and that they may be removed under it."

The same Naphtali who says to-day that the Social-Democrats always knew that crises were unavoidable under capitalism declared, for instance, in a lecture in 1928, which was then issued as a pamphlet, as follows :

" Before elucidating the causes of the change, we should first of all like to establish that the modern labour movement in all countries is confronted to-day with quite a different position on the problems

of the economic situation. To-day the Trade Unions and Socialist parties everywhere have it as their task to fight against all crisis phenomena. The aim of their economic policy is *to overcome, mitigate and guard against crises.*" (Naphtali, *The Economic Situation and the Working Class*, Berlin, 1928, pp. 6 and 7.)

In this Naphtali proceeded from the assumption that the rise of organised capitalism announced by Hilferding is nothing other than " the period of early Socialism." (*Ibid.*, p. 32.)

If Naphtali declares to-day that " organised capitalism " is worse than the capitalism of the past, it only proves that the responsibility for the deterioration in the condition of the working class lies entirely and fully at the door of the Social-Democracy which called upon the working class to fight for this " organised capitalism," in so far as it sought to make it more palatable to the workers by characterising this capitalism as " Socialist production according to plan " or as " early Socialism."

There is no uniform theory of crises in Social-Democratic literature just as there is not in bourgeois political economy in general. Every individual Social-Democratic writer develops his own special crisis " theory." But what is uniform and common in the conception of crises of all the Social-Democrats is that crises are not derived from the chief contradictions of capitalism. Two tendencies are most widespread among the many Social-Democratic explanations of crises ; one derives crises from disproportionality and the other explains it by under-consumption.

The English Labour Party, with its characteristic absence of clarity, either in theory or action, attempts to combine both of these " theories " into an explanation of crises. In their official Study Guide No. 3, *The Socialisation of Industry*, they give the cause of crises as follows :

" Normally, the workers are not and cannot be paid in wages and salaries the value of the wealth they produce, for otherwise there would be

no rent, interest and profit for the capitalist and landlords ; and as the capitalists and landlords need no more of the common necessities of life than does the average man it follows that there is a ' surplus ' production by industry which periodically accumulates until there is what is called a crisis. . . ."

This, as we shall see, is a lop-sided and, therefore, incorrect explanation of crises. What is important, however, is that this lop-sidedness serves the purpose of the Labour Party. By attempting as it does to explain crises by under-consumption, and disproportion in production, it covers up the fundamental cause of crises. In this way the Labour Party diverts the attention of the workers away from the revolutionary road out of all crises, the overthrow of capitalism, and dangles before their eyes false hopes of reforming capitalism through " controlled production " and a " living wage." If all that causes crises are low wages and " accumulated surplus," then, reason the workers under the influence of the Labour Party teachings, there is no need to abolish capitalism in a revolutionary way, but all will be well if wages are raised and the surplus disposed of. As we shall see, neither one nor the other or both together of these attempted explanations are sufficient to explain why crises occur and how to overcome this curse which brings in its wake untold misery and poverty.

(*b*) The " Disproportion " Theory

As is known, Hilferding's theory enjoys much popularity in Social-Democratic literature on crises. Hilferding's conception of crises is adopted in general and on the whole by the authors of the two Social-Democratic text books on political economy, Braunthal and the Nöltings, also by the authors of numerous articles which have appeared in the theoretical organs of Social-Democracy (and in the *Gesellschaft* and *Kampf*).

Hilferding takes the view that crises arise from the disproportion between the various branches of production, which develop during times of good trade. As Hilferding thinks that the poverty of the masses cannot

limit the volume of production, he concludes that if only the right proportion between the various branches of production were maintained, production could continue indefinitely without leading to crises :

> " The expression over-production of commodities is, in general, as meaningless as that of ' under-consumption.' Strictly speaking, one may only speak of under-consumption in a physiological sense ; the expression is, on the other hand, nonsense in economics in which it only can signify that society has consumed less than it has produced. But one cannot see how this is possible if only the right proportions be produced." (Hilferding, *Das Finanzkapital*, Wien, 1923, p. 300.)

So that with the observance of proportionality between the branches of production,

> " Production could be extended indefinitely without leading to the over-production of commodities." (*Ibid.*, p. 300.)

This theory was not invented by Hilferding himself. He borrowed it from Tugan-Baranowski, who also represented the crises as a consequence of a disturbance in the proportion between the various branches of production. From this, as a starting point, Tugan-Baranowski affirms that if in consequence of the displacement of the workers by machinery only one worker remained there need, nevertheless, be no crises if the right proportions between the branches of production be maintained.

> " If the extension of production is practically boundless it must be assumed that the extension of the market is similarly boundless, since with the proportional distribution of social production there are no other limits for the extension of the market than the productive forces which society disposes of." (Tugan-Baranowski, *Studies on the Theory and History of Commercial Crises*, p. 231.)

The National Council of Labour Colleges has also been attracted in the various issues of their text-book,

An Outline of Economics by this theory. Thus, in the latest version they write :

> " There is absolutely no way of ensuring that all industries will expand production at the same rate, and that the increased production of one will find a market through exchange against the increased production of other industries . . ." (P. 85.)
>
> " There will be relative over-production of boots, because the boot industry has ' gone ahead ' of its neighbours too far." (P. 83.)

In constructional goods especially is lack of proportion likely to arise :

> " Their production can only expand, therefore, and find a market, if the rest of industry expands in *greater proportion*." (P. 84.)
>
> " Thus we see that the development of capitalist production along the lines of the continual enlargement of firms and the continual introduction of new machinery, does not go smoothly, but in a series of jerks. Each jerk shakes and sometimes ruptures the whole economic system." (P. 86.)

The argument of the whole chapter (X) on " Industrial Crises " is that the " jerks " are administered by ill-proportioned over-production.

But why now is the theory of disproportionality of Tugan-Baranowski and Hilferding and the N.C.L.C. false ?

> " The manufacture of the means of production is, after all, connected with the manufacture of articles of consumption, since the means of production are not manufactured for their own sake but because they are required more in the industries manufacturing articles of consumption." (Lenin, *Collected Works*, Vol. II, p. 511, Russian Edition.)

This means that crises will inevitably develop, no matter to what extent it is attempted to co-ordinate the various branches of production. Machines are only produced in order to be used first or last in production of articles of consumption. But in order to be set to use they must play the role of capital and function in the exploitation of the workers and the creation of profits.

In the same way the articles of consumption are produced primarily for profit, and if, owing to the impoverishment of the working class which increases in direct proportion to the use of machinery, the possibility of disposing of articles of consumption meets definite limits, there must be a point where it is impossible to dispose of the articles of consumption so as to realise a profit, and thus arises the so-called surplus. This reacts upon the use of machinery which under these conditions cannot be "profitably employed," and here, too, arises a surplus of over-production.

The senselessness of the theory is thus exposed, the theory according to which crises are solely to be explained by the disproportion existing in the branches of production, a disproportion which is considered independent of, and in isolation from, the state of poverty of the masses under capitalism.

Capitalist economy is, moreover, an anarchic economy. The anarchy of production relations, constant disturbances in the proportion between the various branches of production. The disproportion, i.e., the loss of equilibrium, is the rule under the anarchic economic conditions.

The theory of disproportionality cannot satisfactorily explain the causes of the general crises. For why do crises break out in definite periods of time despite the fact that disproportionality always exists under capitalism?

Why does disproportionality, which always exists under capitalism, assume at certain moments a character which shows that the movement towards the adjustment of the various branches of production is impossible otherwise than by way of a general crisis? The theory of disproportionality can give no answer to these questions.

The crises are brought about, as we will see later, by the much more profound contradictions in capitalism, the manifestations of which are multiform. One of these forms of manifestation, but by no means the chief cause of crises, consists in the growing disproportion (which always exists under capitalism) between the branches of industry until it reaches a point when it

(the disproportion) can only be adjusted by a general crisis. The fallacy of the Tugan-Baranowski theory arises from the fact that he tries to explain the crises one-sidedly by the disparity between the various branches of production, and that this disparity is considered in isolation from the contradictions between poverty and wealth, that it is consequently detached from its capitalist form of manifestation. According to this theory crises are but the result of a fault in calculation, whereby it essentially is a matter of indifference whether it is a question of capitalist, socialist or any other economic order.

Notwithstanding its entire insipidness, this theory enjoys the greatest success in the ranks of Social-Democracy. This is also intelligible. If crises are explained by the faults in the adjustment between the various branches of production, it is easy to prove that these crises may be overcome under capitalism. If the workers should become convinced that the proletariat, with the aid of an active " Socialist " policy and through the realisation of industrial democracy, may bring about changes in distribution of capital over the individual branches of production and thereby re-establish the equilibrium in the individual branches of economy—if one attains this conviction how can one doubt that crises may, indeed, be abolished under capitalism ?

(*c*) The Theory of Under-Consumption

Another tendency to be observed in Social-Democratic Literature on the crises, the so-called theory of under-consumption, is not the less adapted to the tasks of Social-Democratic practice.

While the roots of the disproportionality theory may be traced back to the teaching of the " shallow " (as Marx called him) Say, who develops[1] the idea of the harmony of capitalist production and which has already been riddled by the ridicule of Marx, the Social-Demo-

[1] Say has, for instance, propounded the idea that under capitalism, purchases must always balance sales which is also the reason why demand cannot fall behind supply, and that general crises are, therefore, impossible.

cratic theory of under-consumption is but a second edition of the explanation of crises as defended by the petty bourgeois economist Sismondi (1773-1842) and later on served up afresh with a few alterations by Rodbertus (1805-1875), an explanation which was similarly refuted by Marx.

Sismondi took the view that the cause of the crises was that consumption lagged behind production.

Now, although Marx repeatedly exposed the fallacy of the Sismondian explanation of the crises, there are yet such " thinkers " who not only do not see the fundamental difference between the Marxian and Sismondian crises theories, but even represent the theory of Sismondi and Rodbertus as that of Marx.

Karl Kautsky made some attempts to adjust the crises theory of Marx to that of Sismondi and Rodbertus in his earliest works. He thus wrote for instance, in the article on the crises theories already quoted as follows :

> " The crises originate . . . from under-consumption." " Marx and Engels also considered that the final cause of the crises lay . . . in under-consumption." (*Neue Zeit*, 1902, Vol. II, pp. 78 and 79.)

The explanation of crises by under-consumption has, in recent years, been ever more widely disseminated in Social-Democratic circles, and frequently one and the same author will at one time explain the crises by Hilferding's disproportionality theory and, at another, by under-consumption (see for example Naphtali and some others).[1]

The whole Social-Democratic theory of high wages (with the aid of which capitalist economy might ostensibly be safeguarded from crises thanks to increased consumption), indeed, rests upon the explanation of the crises by under-consumption !

The under-consumption theory (just as the disproportion theory) does not explain the crises from the specific nature of capitalism and not from the fundamental capitalist contradictions : for there was under-

[1] It is noteworthy that Kautsky himself has recently developed the Hilferding conception, as for instance in the 25th Edition of his *Economic Teaching* (p. 251) which appeared in 1930.

consumption by the masses also in the pre-capitalist societies, but crises are peculiar only to capitalism.

This is why Engels wrote :

> " If, now, under-consumption was a constant historical phenomenon for thousands of years, while the general stagnation of trade in the crises which break out in consequence of over-production has only become perceptible during the last fifty years, it follows that the vugar economic platitudes of Herr Duhring (to whom must now be added Kautsky and other Social-Democrats,—*Editor*) must explain the new collisions not from the NEW phenomenon of over-production but from the thousands-of-years old under-consumption." (Engels, *Herren Eugen Duhring's Umwälzung der Wissenschaft*, Berlin, 1923, pp. 307 and 308. English Edition shortly.)

Besides this, the derivation of the crises from under-consumption explains nothing and requires on its side to be explained again. For the theory of under-consumption explains the crises by the circumstances that consumption lags behind production and that demand does not in consequence, keep in step with supply. But why is there such a pronounced disproportion between supply and demand at definite moments ? The theory of under-consumption can offer no reply to this question.

Now, wages and the consumption of the working masses actually rise in the periods preceding the crises. How then can under-consumption be the cause of the outbreak of crises ?

This is why Marx criticised so sharply the Sismondian crises theory :

> " It is purely a tautology to say that crises are caused by the scarcity of solvent consumers, or of a paying consumption. The capitalist system does not know any other modes of consumption but a paying one. . . . If any commodities are unsaleable, it means that no solvent purchasers have been found for them, in other words, consumers. . . But if one were to attempt to clothe this tautology with a semblance

of a profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption." (Marx, *Capital*, Vol. II, p. 475-476.)

And yet notwithstanding its manifest intenability, the theory of under-consumption has won a firm place in the numerous Social-Democratic works on the subject. This is also intelligible. Lenin wrote that the Marxian crises theory looks for the cause of the crises "in the condition of production," while the under-consumption theory "sees the roots of it OUTSIDE production (hence, for instance, the general attacks of Sismondi against the classics because they ignore consumption and treat only of production.") (Lenin, *Collected Works*, Vol. II, p. 195, Russian Edition.)

In so far as the crises, according to this conception, are explained by the lagging of consumption, the capitalist relations of PRODUCTION are not taken as the starting point, but only the division of income. In as much as they are explained by the lagging of demand considered in isolation, the whole investigation of the crises is taken out from the sphere of production and transferred to that of the market and exchange relations. Division and exchange are conditioned by capitalist production and are subordinated to it. This is why Lenin wrote:

"The question arises: Does the second theory (the Marxian theory,—*Editor*) deny the fact of the contradiction between production and consumption? Of course not. It fully recognises this fact but it gives it its due and subordinate place . . . it teaches that this fact cannot explain the crises which arise through a much more profound and fundamental contradiction inherent in the modern economic system. . . ." (Lenin, *Ibid.*, p. 195.)

The Social-Democrats see the whole evil of capital-

ism in the defects of its circulation and division of income, but not in the character of capitalist production itself. And this is why the Social-Democrats come forward in defence of the under-consumption theory. They want to instil into the minds of the workers the idea that even with the maintenance of capitalist property of the factories and other enterprises, an improvement in the system may be effected which will have as its consequence the beginning of a happy age for the proletariat. It was no other than Tarnow, the chief speaker at the last (Leipzig) Congress of the German Social-Democracy (June 1931), who recently (1928) had published a pamphlet entitled *Why be Poor*, in which he assured the workers that they may achieve the abolition of their poverty under capitalism. This theory, the object of which was to convince the workers that there was no need to abolish capitalist property is purposely " silent " about the fact that the division of the product depends upon the division of the property in the means of production, that the mode of division is thus pre-determined by the mode of production.

This theory appears in many diverse—and diverting —forms in Britain. As propounded by J. A. Hobson, it emphasises especially the over-investment in capital goods due to the over-payment of the rich. G. D. H. Cole and his group come near to this theory. With the I.L.P. it takes the form (or did in 1931) of a plan to raise the standard of life " to at least a minimum of civilisation." But as Brailsford said once in a moment of frankness these ideas

> " have a certain theoretic interest. One knows very well that they will not be adopted."

One hopes, may one add, that the workers will be attracted to them away from Marxian economies and politics.[1]

The Social-Democrats usually allege that Marx has not elaborated the problem of crises. Naphtali writes, for instance, as follows :

[1] The various theories on the crisis, as put forward in their British form, both bourgeois and Social-Democratic are analysed in Burns' *The Crisis : The Only Way Out.* (Lawrence, 1s. International Publishers 50c.)

" Karl Marx has, unfortunately, left us no theory of crises." (*Economic Crises and Unemployment*, p.11.)

It is indisputable that Marx has written no text-book on crises for Messrs. the Social-Democrats. But Marx has repeatedly shown the *essence* of capitalist crises. Marx has expounded the chief and essential points necessary for the understanding of crises with no less completeness than the other fundamental problems of political economy.

If Marx did, indeed, not concentrate the presentation of his crises theory in ONE place, but has entwined his conception of the crises in all sections of his economic teaching, it is chiefly to be explained by the fact that Marx who considered the crises as an expression of all contradictions of capitalism, took the view that crises in their undeveloped form are already contained in the simplest cell of bourgeois production—the commodity :

" In the value form of the commodity is contained the germ of the whole capitalist form of production, the antagonism between capitalists and wage-labourers, the industrial reserve army, the crises." (Engels, *Herren Eugen Duhrings Umwälzung der Wissenschaft*, Berlin, 1923, p. 336.)

This is why Marx has already developed his theory of crises in his analysis of commodities, and considered the crises in their inseparable connection with every one of the categories of capitalist economy investigated by him.

By their contention that Marx has provided no finished crisis theory, the Social-Democrats have the definite aim of providing themselves with a convenient pretext for the elaboration of " new theories."

CONTROL QUESTIONS

1. What is the common theoretical groundwork of the bourgeois and Social-Democratic crises theories ?
2. Why is the disproportion theory of crises false ?
3. Why is the under-consumption theory of crises false ?
4. What does the anti-Marxian nature of both these theories consist in ?

IV. THE MARXIAN CRISES THEORY

A. The possibility of crises

Marx considers the crises as an expression of all the contradictions of the capitalist mode of production :

> " All contradictions of bourgeois production collectively come into eruption in the general crises on the world market." (Marx, *Theories on Surplus-value*, Vol. II, Part II, p. 318.)

Marx has, therefore, considered the crises in the many-sidedness of their modifications and manifestations. He analysed the many-sided moments which crises may evoke and has shown how the crises develop in all spheres and forms of capitalist economy.

(*a*) The Possibility of Crises as an Expression of the Contradiction in Commodities

Marx finds the general possibility of crises in the fact that the products are produced as commodities.

> " In the case of direct barter production on the part of the producer is mainly directed towards the satisfaction of his own needs or, with the somewhat wider development of the division of labour, the needs of co-producers known to him. It is only the excess which is exchanged as commodities and whether the excess is exchanged or not, is not essential. In the case of commodity production the conversion of the product into money, the sale, is a *conditio sine qua non* (absolute condition,—*Editor*). Direct production for one's own needs falls to the ground. With the non-sale we get the crises."[1] (Marx, *Theories of Surplus-value*, Vol. II, Part II, 281.)

In so far as society produces the products as commodities, i.e., in so far as we have before us a commodity economy, the possibility of crises are already contained in the very commodity nature of the society.

[1] Direct barter is the earliest stage of exchange where the chief mass of the products are manufactured for direct needs and only an excess of them appears as commodities which are directly exchanged against other commodities.

For every commodity must here be exchanged for money. The inherent antagonism of use value and value contained in the commodity finds its expression in the separation of the world of commodities and that of money. In a commodity society :

> " No one can sell unless someone else purchases." (Marx, *Capital*, Vol. I, p. 127.)

Sale and purchase cannot exist without each other ; they form an inner unity :

> " But no one is forthwith bound to purchase because he has just sold." (*Capital*, p. 127.)

Purchase and sale are, at the same time, thus separated from one another. This break between purchase and sale in commodity exchange :

> " develops a whole network of social relations spontaneous in their growth and entirely beyond the control of the actors. It is only because the farmer has sold his wheat that the weaver is enabled to sell his linen, only because the weaver has sold his linen that our Hotspur is enabled to sell his Bible, and only because the latter has sold the water of everlasting life that the distiller is enabled to sell his eau-de-vie, and so on." (Marx, *Capital*, p. 126, Amer. Edn.)

Now if the peasant does not sell his wheat he cannot also buy any linen ; but this means that the owner of the linen can no longer come forward as a buyer of a Bible. But if, on the other hand, the peasant sells his wheat and yet refrains from buying the linen or other commodities, and keeps the value included in the wheat in the money form, a break between purchase and sale will similarly set in. And when, in consequence of the exchange dependence of all acts of purchase and sale, this separation becomes general and extends over the whole chain of exchange relations, then there is an outbreak of a crisis.

Here, however, we merely deal with the possibility of a crisis. But crises need not necessarily break out, as purchase may also follow sales directly one after the other.

" These modes (i.e., the conversion of commodities into money and money into commodities,—*Editor*), therefore imply the possibility, and no more than the possibility, of crises. The conversion of this mere possibility into a reality is the result of a long series of relations, that, from our present standpoint of simple circulation, have as yet no existence." (Marx, *Capital*, Vol. I, p. 128.)

(*b*) Money as a Means of Payment and the Possibility of Crises

The general possibility of crises which is inherent in the commodity form of social production, attains its further development in the expansion of credit and the functioning of money as a means of payment (i.e., goods are sold but the money for it is paid only after the lapse of a certain time, and it is then only that the business is concluded ; money thus exercises the function of credit).

During the space of time which lies between the moment of inception of the credit operation and that of the actual payment of the money, the value of the commodity may change. The payment might, besides this, not be made in time. The separation between purchase and sale and the independence of one from the other then again become revealed. The peasant for instance buys 20 yards of linen at the price of 40 marks. He does not, however, pay this money immediately, as he has not yet sold his wheat, the value of which is similarly 40 marks. The weaver, on his part, buys machinery which he promises to pay after he will have received the money from the peasant. But if the value of the wheat changes at the time when the peasant can sell it and he can realise for it less than 40 marks or if the peasant cannot sell it at all, he can of course make no final settlement with the weaver. The result of this is that the weaver is also unable to pay the manufacturer of the machinery, etc.

Credit ties up in this way all commodity producers who participate in credit operations by a chain of reciprocal dependence. The consequence of the break

of any link of financial obligations may result in a shock to the whole chain, i.e., a crisis might break out.

> " The spinner cannot pay because the weaver cannot pay ; both of them do not pay the machine manufacturer who does not pay the iron, timber and coal merchant. All these again cannot meet their obligations as they have not realised the value of their commodities . . . and a general crisis thus arises." (Marx, *Theories on Surplus-Value*, Vol. II, Part II, p. 284-285.)

This second possibility of a crisis, as Marx calls it, can only develop on the basis of the first :

> " Crises are possible without credit, without money functioning as a means of payment. But the second (the credit crises,—*Editor*) is not possible without the first (the crises possibilities,—*Editor*), i.e., that purchase and sale falling asunder." (*Ibid.*, p. 288.)

The second possibility of a crisis which is based upon the extension of credit represents a further development of the possibilities of crises. The possibility of crises inherent in the contradiction of commodities can set in more easily and more rapidly with the development of credit operations. But also here the crises need not NECESSARILY always break out. This is why Marx considers also the second form of crises merely as a possibility, it is true as a more developed form than the first, but nevertheless a form which does not yet condition the inevitability of crises.

(*c*) The Development of Possibilities of Crisis in the Movement of Capital

> " No crisis can exist without purchase and sale becoming separated and entering into contradiction one with the other." (*Ibid.*, p. 285.)

Commerce by direct barter does not (as we have already mentioned) contain within itself the possibility of a crisis.

> " We have never heard that the ancients with their slave production knew of any crises, although even

among them there were cases of individual producers becoming bankrupt." (*Ibid.*, p. 277.)

Simple commodity economy, however, does already contain within itself the general possibility of crisis.

"The simple circulation of money and even the circulation of money as a means of payment (and both had existed long BEFORE capitalist production, without crisis happening) are possible and did, indeed, exist without crisis." (*Ibid.*, p. 285.)

It is only the transformation of simple commodity production into capitalist economy which creates the conditions under which the possibility of crisis existing within the framework of simple commodity economy inevitably changes this possibility into a reality.

It is thus that capitalist economy develops and increases simultaneously the possibilities of the very crises.

"The developed contradictions within commodity circulation and further within money circulation (and thereby the possibilities of crises) reproduce themselves by themselves in capital, in which, indeed, developed commodity circulation and money circulation take place only on the basis of capital." (*Ibid.*, p. 286.)

Indeed, when a severance takes place between purchase and sale in simple commodity economy, such severance will be limited to a narrow market sphere and will not spread generally.

But the case is different under capitalism. Capitalism which also transforms labour-power into a commodity leads thereby to a general development of commodity and money economy. Capitalism develops a colossal concentration of production which it conglomerates into large and narrowly specialised enterprises. This is why all the independent economic units (split up under capitalism, by private property and a far-going division of labour) are closely tied up with each other so that any one of these economic units is dependent upon all the rest. A textile enterprise depends upon a cotton plantation and a machine factory, the machine factory

depends upon the blast furnace work, the blast furnace work upon the collieries, etc., and vice-versa. This is why the general or abstract (as Marx called it) possibility of a crisis, which is contained in the contradiction between purchase and sale, may easily become converted into a reality.

Further, as credit as well as interchangeable debts and obligations widely develop and are closely intermingled in each other under capitalist production, Marx remarks :

> " As far as concerns the possibility of crisis, arising from the form of money as a *means of payment*, the basis for the realisation of this possibility shows itself to be much more real in capital." (*Ibid.*, p. 284.)

Consequently, the possibilities of crises, which are already contained in the framework of simple commodity circulation, are reproduced and developed.

" in which the possibility may develop into a reality."

(Marx, *Ibid.*, p. 285.)

B. The Inevitability of Capitalist Crises

But why does the possibility of crises develop into an inevitability under capitalism ?

But why does a severance of necessity set in at definite periods between use-value and value, commodity and money, production and circulation, purchase and sale, capital and labour ?

We have already said that capitalist crises are crises of over-production. But this is only a description of the visible course of modern crises. What has to be explained is why under capitalism over-production inevitably sets in at definite periods of time.

(*a*) The Contradiction between the Social Character of Production and the Capitalist Form of Appropriation as the Chief Cause of the Crises

Marx, who considered the crises as an expression of the violent collision between the mutual contradiction of the productive forces and capitalist productive re-

lations, evolved the necessity of crises from the CHIEF CONTRADICTION of capitalism, the contradiction between the social character of production and the capitalist form of appropriation.

Private appropriation exists in simple commodity economy ; but here the independent commodity producer appropriates the product of his own labour. Under capitalism, however, the owner of the means of production appropriates products which have been exclusively made by the labour of others.

What does the socialisation of labour under capitalism consist in ? It

> " does not at all consist in the fact that persons work in one factory (this is only a small part of the process), but in this, that the concentration of capital is accompanied by a specialisation of social labour, by a decrease in the number of capitalists in every industry and an increase in the number of special industries ; it consists in this also, that the many scattered production processes flow into one social production process." (Lenin, *What are the Friends of the People ?* 1894, *Collected Works*, Vol. I.)

But

> " An irreconcilable antagonism between the form of production and that of appropriation begins when the entire production flows, in this manner into one social productive process, while each production is run by an individual capitalist on the arbitrary will of whom it depends, and the social product of which becomes his private property." (*Ibid.*)

There are no limits to the desire for the appropriation of the labour of others ; it is infinite in its nature. Not

> " the profit on any single transaction," but " the restless never-ending process of profit-making alone is what he (the capitalist) aims at." (Marx, *Capital*, Vol. I.)

In the investigation of the transformation of money into capital Marx points out that " the circulation of capital has . . . no limits." (Marx, *Capital*, Vol. I.)

In the struggle for the increase in the appropriated

product of the labour of others, every individual capitalist strives for accumulation, i.e., the transformation of surplus-value into capital by increasing and extending his production. The boundless development of production becomes, owing to competition, a matter of compulsion for every individual employer, as under the conditions of relentless competitive struggle every falling behind involves defeat and ruin. The consequence of this tendency towards development of the productive forces under capitalism is that production overflows the bounds formed by the capitalist productive relations.

It is not demand but capital which determines the limits of the extension of the entire social production.

> " With the development of capitalist production, the scale of production becomes less and less dependent on the immediate demand for the product and falls more and more under the determining influence of the amount of capital available in the hands of the individual capitalist, of the instinct for the creation of more value inherent in capital, of the need for the continuity and expansion of its processes of production." (Marx, *Capital*, Vol. II, Amer. Edn.)

And owing to the requirements of competition the development of the productive forces does not only proceed by an increase in the purely quantitative scope of the productive apparatus but also an enormous qualitative progress of technique, i.e., by a rise in the productivity of social labour.

The hunt after increased profits stimulates the development of technique under capitalism, it leads to unceasing and uninterrupted technical improvements and perfections, and gives thereby the growth of the productivity of social labour a tremendous fillip.

> " The capitalist mode of production has a tendency to develop the productive forces absolutely . . . regardless of the social conditions under which capitalist production takes place." (Marx, Vol. III, p. 292.)
>
> " The mass of this surplus production is capital itself, the existing scale of productive conditions and

the boundless enrichment and capitalisation drive of the capitalists, in no way of consumption." (Marx, *Theories on Surplus-Value*, Vol. II, p. 263.)

" It is a frantic struggle, which carries away even the most experienced and phlegmatic ; goods are spun, woven, hammered, as if all mankind were to be newly equipped, as though two thousand million new consumers had been discovered in the moon." (Engels, *Conditions of the Working Class*, p. 84.)

But the same process which calls forth the irresistible growth of productive forces, relentlessly leads also to the overstepping of the bounds of the capitalist productive relation, which of necessity causes a conflict between the two, a conflict which can only resolve itself in a crisis.

Capitalism, which brings with it the socialisation of labour, while the gigantic results of production, which, under capitalism, are not socialised but which are appropriated and utilised by the owner of the means of production, excludes, on the other hand, the use of these productive forces by the mass of the population.

What, indeed, takes place at the other pole of development, what happens in the camp of the working population ?

The hunt after profit leads to technical perfections, but simultaneously also to a relative decline in the demand for labour-power—to the formation of an industrial reserve army.

" The demand for labour decreases to the extent to which capital makes the worker more productive and in proportion to such productivity." (Marx, *Capital*, Vol. I.)

In consequence of this, there is a growth in the absolute magnitude of accumulated capital with, at the same time, a relative decline in the number of workers employed by the capitalists.

In its hunt after profit, capital develops not only the tendency of a relative decrease in the applied volume of live labour, but also reduces simultaneously wages to a minimum which is facilitated by the pressure of the industrial reserve army on the labour market. Even

though capitalism admits of an increase in wages in periods preceding crises, such increase corresponds to a still greater increase in the profit of capital and its accumulation, whereby the growing consumption is accompanied by a still greater expansion of production.

The capitalists who strive to attain their object (the greatest expansion of their capital) are thus compelled to apply methods, for the realisation of this object, which must inevitably lead to a clash between production developed to a maximum and the narrow basis of consumption. The aim of capitalism, the self-expansion of value, comes in conflict with the means for the realisation of this aim.

Such is, under capitalism, the conflict between the extension of production and the self-expansion of capital, i.e., between the absolute development of the productive forces and the capitalist form of organisation of social production which hampers this development:

> " It is just this extension of production without a corresponding extension of consumption which corresponds also to the historical mission of capitalism and its social structure." (Lenin, *Collected Works*, Vol. III, Russian Edition, p. 30.)

The result of the movement of capital consists, therefore, in the inevitable overstepping of the limits which are set to it by the capitalist productive forces. Hence the crises.

In addition to this, there is the fillip to this movement which is strengthened by the credit system and which furthers the acceleration of the development of the contradictions. The surpassing of production over the bounds set by the bourgeois structure of society, as well as the movement of money (loan) capital, is also furthered by the fact that the low rate of interest during times of boom is one of the motive forces which lead to over-production, since it involves an enhanced rate of profit with the mass of suplus-value remaining the same.

Finally, bank capital

" places at the disposal of the industrial and com-

mercial capitalist all the available, or even potential, capital of society, so far as it has not been actively invested. . . . This does away with the private character of capital and implies in itself, to that extent, the abolition of capital . . . banking and credit thus become the most effective means of driving capitalist production beyond its own boundaries and one of the most potent instruments of crises and swindle." (Marx, *Capital*, Vol. III, p. 712-13.)

All levers of capitalist development thus act in the direction of the maximum expansion of production.

The capitalist

" mode of production acquires an elasticity, a capacity for sudden extension by leaps and bounds that finds no hindrance except in the supply of raw material and in the disposal of the produce." (Marx, *Capital*, Vol. I, p. 492.)

Capitalism which furthers the development of the production of raw material and the winning of new markets, creates new species of raw material and transforms entire countries into raw material plantations, but thereby overcomes also the bounds which the production of raw materials had set against it.

Its development is, however, inevitably again and again disastrously disturbed by the narrow bounds of the limited bourgeois form of production. Since by increasing its immense exploitation of the proletariat, capitalism attains a colossal development of the productive forces and a constantly increasing production of the means of production and consumption. This progressively growing mountain of means for human production and consumption are produced in the specific form of commodities, which had attained an enormous volume and a colossal mass of value, and surplus-value contained within it, can only be handed over for consumption if buyers can be found, i.e., the mass of commodities must be sold.

" The labourer has been none the less exploited, but his exploitation does not realise as much for the capitalist." (Marx, *Capital*, Vol. III, p. 286.)

This contradiction between unlimited exploitation under capitalism and the limited possibilities of realisation of the results of this exploitation finds its sharpest expression in the crises.

> " The conditions of direct exploitation and those of the realisation of surplus-value are not identical. They are separated logically as well as by time and space. The first are only limited by the productive power of society, the last by the proportional relation of the various lines of production and by the consuming power of society. This last named power is not determined either by the absolute productive power nor by the absolute consuming power of society, but by the consuming power based on antagonistic conditions of distribution which reduces the consumption of the great mass of the population to a variable minimum within more or less narrow limits." (Marx, *Capital*, Vol. III, p. 286.)

(*b*) The Conflict and Disparity Between Production and Consumption as an Expression of the Chief Contradiction in Capitalism

We thus see that the contradiction between the social character of production and the capitalist form of appropriation, which forms the chief cause of the crises, expresses itself in the conflict between production and consumption, capitalism endows the contradiction between production and consumption, which also existed in pre-capitalist societies, a new and peculiar character as a contradiction between labour and capital. The crisis finds its expression in the colossal intensification of this contradiction in the sharp disparity between production and consumption. The contradiction between production and consumption always exists under capitalism. The intensification of this contradiction and its development to the point of explosion is conditioned by the contradiction between socialised production and capitalist appropriation.

The chief capitalist contradiction between social production and the private form of appropriation does not, however, merely limit itself to the contradiction

between production and consumption. It has many forms of manifestation. And just as the Marxian theory does not ignore the significance of the relation between production and consumption, but assigns it, however, a subordinate place, so also it does not exclude the role of the disproportion between the individual branches of production in its analysis of the crises, but considers, however, this disproportion as an expression of the chief contradiction.

Marx has always stressed the connection between these two moments and expressed the view that both the disproportion and the contradiction between production and consumption are only different expressions of one and the same chief contradiction of capitalism, and that they are mutually inter-dependent.

The entire capitalist production is divisible in two groups: the production of the means of production and the production of the means of consumption. The first group produces iron, steel, machinery and other means of production; the second group consists of industries which produce textile goods, clothing, means of subsistence and other articles of consumption. Both groups form an inner unity and one cannot exist without the other. Externally, however, they are separated and independent of one another under the capitalist conditions of private property. And it is this separation of the two component parts of the unified social production which involves the possibility of a disproportion, which, in consequence of the contradiction between the social character of production and the capitalist mode of appropriation, transforms by fits and starts this possibility into a necessity.

The entire value produced in a capitalist society is divided, from a social standpoint, into two parts: one part is realised as capital and serves as productive consumption, and the other part is realised as revenue and serves as the personal consumption of the capitalists and the workers.

The commodities of the branches of economy which produce the means of production, can, in consequence of the natural form of their products, only be utilised

for the reproduction of constant capital. Thus, for instance, machines cannot be consumed but can only be used up in production; they, therefore, function as capital and can only, therefore, be exchanged for capital, while the products of the branches of production which produce the means of consumption can only be exchanged against income. Thus, for instance, cloth, clothing, means of subsistence and other goods which are produced in the branches of economy manufacturing the means of consumption, can, in consequence of their natural form, only be applied for individual but not productive consumption. They cannot, therefore, from a social standpoint, serve as capital but only as articles of personal consumption. They replace, on one hand, the variable capital, and form on the other hand the unproductive used up, i.e. the consumed, portion of surplus-value. Lenin elucidates this in the following way:

> " The products which replace the variable capital must after all be exchanged for the *means of consumption* of the workers and cover the usual consumption of the workers. The products which replace the constant capital must after all be exchanged for *means of production* and must be used as capital for new production." (Lenin, *Collected Works*, Vol. II, p. 495, Russian Edition.)

And so, the contradiction between production and consumption inherent in capitalism, which assumes the character of a contradiction between capital and income, expresses itself also in the differences of the parts of the social production. This is why, as Lenin remarks:

> " The power of consumption of society and the proportionality between the various branches of production are not at all some kind of independent conditions not connected with one another (this, as we have seen, is exactly what the Social-Democrats cannot grasp,—*Editor*). On the contrary, a certain state of consumption is one of the elements of proportionality." (Lenin, *Remark on the theory of markets, Collected Works*, Vol. II.)

While the contradiction between the social character of production and the capitalist form of appropriation expresses itself in the fact that production outstrips consumption, and that the increase in income lags behind the growth of capital, the unequal development of the two parts of the entire social production, and namely, the more rapid extension of the production of the means of production as compared with the production of the means of consumption, is another expression of this contradiction. Just as the chief contradiction of capitalism presupposes the necessity of violent collisions between production and consumption, which find their expression in crises, so exactly does the unequal development of the branches of production lead to a conflict, and indeed, of so profound a nature, that an adjustment is impossible otherwise than through crises.

One of the characteristic peculiarities of capitalist development is the relative reduction in the amount of human labour (of the workers) as compared with inanimate labour (that of machines). This finds its expression in the progressive growth of constant capital as compared with variable, which latter determines the magnitude of the income of the workers.

Capital, on the other hand, flows more and more into the branches of production, which, in consequence of the natural form of their product, are determined in advance to serve as constant capital, i.e., in branches of economy which provide means of production. The more the development of capitalism progresses, the more does capital concentrate itself in THOSE branches of production which produce coal, iron and machinery, as compared with those which produce textile goods, food, etc.

> " The capitalist law of development consists in the fact that constant capital grows more rapidly than variable, i.e., that an ever greater portion of the newly formed capitals are applied in those branches of social economy which produce means of production. This portion consequently grows more quickly than that producing means of consumption." (Lenin, *Collected Works*, Vol. II, p. 400.)

This growth of the branches of economy producing the means of production, which outstrip the development of those producing means of consumption, is another expression of the preponderance in the development of constant capital over variable. Hence the development of the contradiction between production and consumption under capitalism, which finds its expression, above all, in the contradiction between labour and capital and the disproportional development of the various branches of economy of capitalist social production.

The Marxian theory proceeds from this, that production under capitalism creates within certain limits its own market. In so far as the greatest part of the value is not consumed by the capitalists but is applied towards accumulation, i.e., for the further extension of the process of production, the market for means of production is thereby broadened, while the growth of the industries in which they are produced, leads to the utilisation of fresh labour-power and to an additional demand for means of consumption as a result of increased consumption. Capitalist production, therefore, itself determines consumption : but here consumption is inevitably outstripped by production.

But just as production develops with relative independence from consumption, so also do the branches of production which manufacture the means of production develop with relative independence from those producing means of consumption while the influence of the former determines the development of the latter.

But if the means-of-production-group develops relatively independently from the means-of-consumption-group, this does not at all mean that there are no contradictions between them. On the contrary, contradictions are here inevitable and constantly exist.

But the relatively independent manufacture of the means of production, which within certain limits create their own market, are after all tied up with the production of the means of consumption. Since the machines are not produced for their own sake but in order to increase the production of textile goods, food, etc.

Just as the unlimited development of production under capitalism comes into conflict with the lagging consumption, so does the more rapid growth of the means of production finally lead to over-production, as an expression of the disproportion between the various branches of production which go so far that only a crisis may temporarily close up the gap.

The more rapid growth of production of the means of production as compared with the production of the means of consumption is only a sign that consumption lags behind the development of production under capitalism and of the developing contradiction between capital and income, i.e., between the increase of wealth at one pole and of poverty at the other.

The contradiction between the social character of production and capitalist form of appropriation thus finds its expression in the fact that the growth of the branches of economy for the production of the means of production outstrips the growth in the production of the means of consumption. This expanding development of the branches of economy which provide the means of production and their outstripping of the production of articles of necessity is, however, possible only within certain limits, in so far as the group of the means of production consummates exchange within itself and creates its own market.

The increase in the production of the means of production affects, in the long run, also the production of the industries which manufacture the means of consumption, inasmuch as it calls forth a rise in the production of the latter.

It is thus that the chief contradiction of capitalism calls crises into being, inasmuch as it deepens the contradiction between production and consumption, and creates sharp disparity between the branches of economy, producing the means of production and those which produce the means of consumption.

The Marxian crises theory stands thus in blunt contradiction to all bourgeois crises theories and to its varieties—the Social Democratic theories.

While the bourgeois and Social-Democratic theoreticians, in their investigation of the problem of crises, are using their efforts to deny the inner contradictions of the capitalist mode of production, to abstract themselves from them, to " forget " them or to represent them as an accidental error in calculation which may be overcome within the framework of capitalism,— Marx finds that the crises spring from the essence of capitalism itself, from the contradiction between the social character of production and capitalist appropriation which is inherent in capitalism. The capitalist MODE OF PRODUCTION is itself the cause of the general over-production crises. So long as this mode of production exists, so long will crises be inevitable and impossible to overcome. The capitalist PRODUCTIVE RELATIONS must be removed if it be really desired to put an end to crises.

This is not the way of the British Labour Party and Social-Democrats.

At the last Conference (Leicester 1932) the remedies proposed by the Labour Party to the Crisis were :

1. Stabilisation of wholesale prices.
2. Bank of England under " public ownership and control."
3. The creation of a National Investment Board.
4. Emergency measures to deal " with any attempt by private financial institutions to obstruct a Labour Government, damaging national credit, or create a financial panic."

Coupled with this is the proposal for " planning." Thus, in the Leicester Resolutions proposals were made for setting up Boards to manage transport, agriculture, electricity, etc. These Boards are to be run by nominees of various capitalist interests. In the same way the T.U.C. at Newcastle (1932) proposed Public Corporations, in order not to transfer ownership but to transfer " control."

An example of this is provided by the T.U.C. Report on Industrial Relations :

" It is now becoming more generally recognised that the crux of socialisation lies in the transfer of control to

the community. According to traditional notions control was automatically vested in the owners of property. . . . The owners of industrial capital have not for a long time been able to do what they liked with it. . . . In modern times there is a tendency towards a divorce of ownership from control."

Along with the " explanation " of the crisis that it is not caused by capitalism but by control by " nineteenth century " minds,[1] etc., we get the proposals of the Labour Party for financial control. Investment is to be managed by a Board of experts. The Governor of the Bank of England is to be appointed by the Government ; the trade depression is " aggravated " by " the deflationary monetary policy pursued in recent years," and therefore prices are to be kept stable. The T.U.C. expresses its uniformity with " the line of thought " of the Liberal Economist, J. M. Keynes. The *Daily Herald* City Editor whoops because the chairman of one of the " Big Five " Banks approves of his policy and so on.[2] These ideas have one object : to make capitalism reorganise to strengthen finance-capital, not, as the Marxist analysis shows to be the only way—the abolition of capitalism.

[1] " An acute student of British politics has supplied in a sentence a diagnosis of her difficulties. They are due, he writes, to the inability of her rulers to realise that the nineteenth century has come to an end, and to their consequent incapability to introduce the changes which are required by the twentieth. It is that transition which it is the mission of the Labour Party to initiate and control." (*Labour and Nation*, the 1929 Election Programme of the Labour Party.)

It is not capitalism that is at fault, but the inability of the capitalists to reorganise!

Herbert Morrison in his *Socialisation of Transport* gives the theoretical basis for this policy and the practical side of it is found in the proposal that Lord Ashfield, head of the Traffic Combine, becomes head of the London Transport Board—of course with an enormous salary. The point of the proposals of these "public corporations " in practice is that they safeguard the rentiers' interest in a time of crisis when profits are going down.

[2] The student can find the ideas summarised here fully expressed in the Policy Reports to the Labour Party.

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